2019

Undue Credit? Evaluating the Microfinance Craze

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International Affairs Senior Capstone

JANUARY 15, 2019

ABSTRACT

Microfinance seeks to address the systemic global wealth inequalities that result from financial exclusion. Over the most recent decades, the constitution of the microfinance industry has shifted from primarily non-profit institutions to commercially funded, for-profit institutions. Although poverty alleviation impact assessments have been both inconclusive and conflicting, microfinance has continued to proliferate at a rapid rate, receiving enthusiastic accolades from the global development community. This anomaly is explored through an examination of the neoliberal paradigms that microfinance serves to reinforce. Though microfinance has maintained a progressive reputation, in practice it has proven to be a poverty alleviation tactic that fortifies the neoliberal status quo and the existing global economic order.

INTRODUCTION

Financial exclusion is frequently highlighted by the global development community as a systematic perpetuator of poverty. Lack of access to financial services such as savings accounts, credit lending, and insurance directly hinder wealth accumulation among the poor. Financial markets often do not extend service to the poor due to geographic isolation, lack of collateral, and, given high transaction costs, unprofitability. Microfinance, which presents a possible solution for financial exclusion, has been enthusiastically celebrated by the global governing community. Microfinance can take on a wide array of structures and methodologies. Though microsavings and microinsurance have become increasingly available, microloans are the most common form of financial service offered within the microfinance sector. These small sums of money are made available to impoverished individuals who had previously been ineligible within the mainstream financial sector. Micro-loans are then invested into the borrower's livelihood. These investments can facilitate higher incomes for the borrower, thereby lifting them out of poverty by helping them create a sustainable source of wealth. Microfinance first gained international attention in Bangladesh where a small scale, community-oriented micro-lending system was popularized. From these humble beginnings, microfinance institutions (MFIs) have experienced a dramatic evolution. From small, socially engaged, non-profit operations to mammoth non-government organizations (NGOs) and finally to full-fledged commercial banks, microfinance has developed into a thriving new industry with a mission to end global poverty. The tremendous growth in size of the microfinance industry over the 90s and early 2000s was dubbed "The Microfinance Revolution".

As microfinance has proliferated, the industry has received consistent acclamation as a phenomenon that challenges existing economic power structures by facilitating the redistribution of wealth at a systemic level. The structures of wealth within the late 20th and 21st century have broadly been shaped by neoliberal practices. Neoliberalism is a theory and set of political and economic practices emphasizing free trade, free markets, and individual entrepreneurship. With a hegemony that permeates societal-ideological spaces and global development strategy alike, neoliberalism has become a defining force of the present day global system.

Microfinance seeks to address the inequalities resulting from market forces within this neoliberal system. Yet, microfinance is also a development strategy frequently deployed by Intergovernmental organizations (IGOs) who have historically been great proponents of neoliberal practices. Additionally, as the microfinance industry commercializes, microfinance grows increasingly dependent on the economic systems that produced the exclusionary problem it seeks to alleviate. With these facts in mind, I will be conducting an evaluation of the interplay between microfinance and broader capitalist market systems. This analysis seeks to shed light on underlying causes of the proliferation and celebration of the microfinance industry.

LITERATURE REVIEW

Neoliberalism

Neoliberalism is frequently cited as the prevailing economic framework of our time (Munck, 2005). At its very root, neoliberalism owes its origins to classical economists such as Adam Smith, who initially popularized laissez-faire principles in the 18th century. Following the Welfarist period of the Depression and World War II era, there came a great resurgence of classical liberal economic thought. These liberal economic ideals of free trade and free market capitalism permeated policy making and global development strategy of the late 20th and 21st century (Haymes et al, 2015). The new incarnation of liberal economic principles was coined Neoliberalism by Friedrich von Hayek, during the 1930s (Jones, 2012). However, the practical application of Neoliberalism did not gain its notoriety until the 1980s. During the 1980's wave of conservatism and monetarism led by figures such as Ronald Reagan, Milton Friedman and Margaret Thatcher, government austerity, deregulation and globalization moved to the forefront of political and economic discourse (Harvey, 2005).

As free trade and free market ideologies took root in the global practices of powerful countries, a certain recipe of economic and political policies became catchall fixes for economic stagnation within the developing world. Trade liberalization, privatization of markets, lowered interest rates, fiscal spending cuts, and deregulated markets became the neoliberal cocktail seeking to ease the financial struggles plaguing the Global South (Chang, 2008). Facilitating conditions conducive to the expansion of the private sector within economic and societal spheres became a primary concern of mainstream governing bodies. These policies fully rejected the Keynesian economic and welfare state mentality of the Depression/World War II era, shifting responsibility to the market to weed out inefficiencies, spur innovation and alleviate the poverty racking the developing world (Change, 2008).

Dependency Theory: A Theoretical Framework

Dependency theory evolved during the 1960s and 70s in Latin America. Throughout this time, the developing world continued to experience stagnation despite continual "modernization" efforts from the global north. Dependency theory was conceptualized by Raul Prebisch as an alternative to modernization theory (Gereffi, 1983). Rather than focusing on *internal* causes of underdevelopment, dependency theory centers around external circumstances and interactions. Dependency theory argues that the flow of resources from industrially advanced "center states" results in the underdevelopment of economically dependent "periphery states" (Schmidt, 2018). Maintaining the dependence of periphery states facilitates the continued accumulation of wealth by the center states. Periphery states may be dependent on center states for a wide array of resources including technologically advanced products or capital investments (Ferraro, 2008). Due to a continual reliance on center states for capital-intensive resources, periphery states do not develop the technological and institutional infrastructure to become competitive forces in the global economy. The structural nature of this mechanism prevents periphery states from accumulating wealth and becoming major economic actors.

Financial Exclusion

The liberalization of capital flows brought on by neoliberal practices resulted in an increased reliance on financial capital markets and the use of financial instruments (Epstein, 2005). Financial channels have thus become increasingly instrumental in wealth accumulation (Krippner, 2004). Given these trends, the World Bank, United Nations (UN) and other such IGOs are focused on increasing financial access for poor demographics. This is viewed as a key strategy for poverty alleviation, as it lowers systemic barriers to entry into the market economy for poor populations (World Bank, 2018).

Financial exclusion occurs when significant portions of the population have no access to formal financial institutions (Panigyrakis, Theodoridis and Veloutsou, 2002). Financial exclusion impacts certain regions of the global population disproportionately (Appendix A). Lack of access to financial services inhibits saving and investment into healthcare, education and businesses. This increases vulnerability to natural disaster, medical emergencies and other crises (World Bank, 2017). As of 2017, financial exclusion has been documented as affecting 31% of the total global population (World Bank, 2017). The causes of financial exclusion result primarily from the screening processes mandated by mainstream financial systems. Such processes serve to analyze risk, which determines whom to loan to, how much to loan, and loan terms. Larger banks with formalized, regulated structures focus on transferable, hard information such as financial statements and credit scores (Bass, 2006). When calculating risk by these metrics, individuals who cannot produce the required documentation, do not have a permanent address, or have limited access to collateral are excluded from engaging in financial systems. Poorer populations are also often geographically isolated. Without a strong market base, local banks perform poorly and bank franchises do not extend into these rural territories. Even if poor individuals could pull together the necessary documentation requirements, they would be financially excluded based solely on geography (Honohan, 2008).

Microfinance Institutions

In response to the phenomenon of financial exclusion, the concept of microfinance became popular in the 1980's. Microfinance seeks to provide small scale, easily accessible, relationship-oriented financial services to poor populations. Microfinance utilizes soft information collected through the formation of strong bank-borrower relationships (Bass. 2006). See Appendix B for a full list of microfinance characteristics. Savings, insurance and credit are the three most significant microfinance products (Rhyne, 2006). Through microfinance, clients without enough assets for collateral may gain access to small amounts of credit. Microloans may be put towards enhancing entrepreneurial activities. According to Banerjee and Esther (2007), individual or family-run entrepreneurial endeavors make up the greatest portion of how the poor earn their incomes. Thus, these small infusions of capital can be essential for poor individuals to make a livelihood.

Microcredit typically involves small, short-term loans with interest rates averaging around 35%. However, there is a high level of interest rate variation from country to country. For example, Uzbekistan's national average is above 80% while Sri Lanka's is only 17% (Rosenberg, Gonzalez, and Narain, 2009). These high rates reflect the considerable amount of risk involved in issuance of uncollateralized loans. High interest rates are also attested to the high operation costs associated with numerous small-principal micro-transactions. These operating costs are further increased when accessing rural populations (Kneiding and Rosenberg, 2008). High rates can reduce loan delinquency as borrowers are incentivized to pay back quickly. The market price for loans is historically set high by local moneylenders who, prior to microfinance, were the main providers of credit. As such, the high rates set by microfinance are not unfamiliar to poor individuals seeking loans. For these reasons, the poor are reliably willing to pay high interest rates (Kar and Swaine, 2013).

One of the first modern models of microfinance to gain global recognition was the Grameen Bank model, which was conceptualized by Muhammad Yunus. The basics of the Grameen model are as follows. A small loan is presented to a group of five women, all of whom act as guarantors for the others. Rather than large one-time repayments, this model structures repayment in smaller weekly installments, which are paid at weekly meetings. These meetings, in addition to creating repayment accountability, offer entrepreneurial support and create a sense of community. All members undergo a careful selection process and are put through rigorous training. Loans are initially given to the two neediest of each group and if repayment is successful, two more receive loans. Loans must be put to entrepreneurial endeavors and certain social codes, such as family size limitations, must be accepted by group members. This philanthropically-driven, socially oriented, “self-help” model was the initial microfinance formula that spread throughout the world (Dowla and Barua, 2006).

Since the creation of the Grameen model, the structuring of MFIs have undergone extreme diversification, utilizing a plethora of different methodologies. For the purposes of this paper, I will use the three generalized groups of MFIs outlined by J.D. von Pischke (2007). These three categories include NGO institutions, for-profit institutions, and cooperatives.

Non-governmental Organization microfinance institutions (NGO MFIs) are non-profit organizations with missions entirely focused on poverty alleviation. They depend on subsidies as an essential monetary stream for survival. Much of their subsidies are derived from high net worth individuals, local governments, or the international development community (Bateman and Chang, 2011). Because NGO MFIs benefit from subsidies and donors, they tend to prioritize maximizing services, offering a holistic array of social, financial, and entrepreneurial mentorship programs (Von Pishke, 2006).

For-profit MFIs forgo reliance on donors and subsidies to avoid the hefty transaction costs of grant writing, donor fickleness, and the operation inefficiencies that characterize steady subsidy reliance. These MFIs are owned entirely by shareholders and typically do not offer additional social services beyond financial products (Von Pishke, 2006). Their main objective is to maximize profit for shareholders while creating more efficient financial markets that engage poorer demographics (Tchakoute-Tchuigoua 2009). They are often, though not always, formally licensed, and can be regulated by local governing bodies.

Cooperative MFIs pool and lend money out exclusively to cooperative members. cooperatives may be noncommercial or commercial and function under different legal and tax rules than joint-stock corporations or non-profits. A primary goal of a cooperative is to recruit more members, which will further diversify the cooperative's services and resources (Von Pishke, 2006).

Commercialization of the Microfinance Industry

Over the past several decades, the explosion of publicity over microfinance has resulted in a massive influx of donor aid for microfinance initiatives. NGO MFIs have grown very quickly, spurring institutional restructuring and altered methodologies. This transition has been described as the "reconstitution" of the microfinance industry (Davutoglu, 2013). Though the popularity of microfinance has made donors plentiful, subsidy-funded NGO models do not create sufficient portfolio development to ensure sustained, independent growth (Hishigsuren, 2006). As a result, some NGO MIFs have begun to undergo structural transformations towards for-profit institutions, joining the formal, regulated financial market (D'Espallier, 2017). The terminology for this phenomenon is called *formalization, commercialization* or *transformation* (Frank, 2008). I will use the terms formalized MFIs, commercial MFIs, transformed MFIs, and for-profit MFIs interchangeably to reference commercial microfinance institutions.

The transformation of the microfinance industry has occurred at an astonishing rate. From the year 2004 to 2006, there was a 79% growth rate within global for-profit institutions, jumping from 124 to 222 (Dileo and FitzHerbert, 2007). This has opened the Microfinance industry up to an influx of International Financial Institution (IFI) capital and private foreign capital. The mainstream financial industry has jumped to invest in this win-win, double bottom line venture. However, the added profit incentives have led to increasing accusations of mission drift within the microfinance industry (D'Espallier et al, 2017).

The commercialization trend is a significant shift away from the small-scale, philanthropic organizations committed to addressing both the financial and social disenfranchisement of the poor. The results of this shift have been discussed both with favor and distaste within the literature. When examining the debate surrounding the microfinance industry's "double bottom line", two different perspectives are typically argued. The Welfarist perspective is preoccupied with the social mission aspect of microfinance and believes that adding a profit drive distracts from poverty alleviation objectives. The Institutionalist perspective places the highest value on the development of sustainable financial institutions within the formalized financial sector, arguing that the competitiveness and overall viability of the financial market will have the greatest benefit for overall economic wellbeing (Bangoura, 2012).

Impact and Accolades

Measuring the poverty alleviation impacts of the microfinance industry is difficult and provides inconclusive results regarding microfinance's efficacy (Zeller and Meyers, 2003). While numerous studies have been performed attempting to measure microfinance impacts, many have been conducted in-house by MFIs or MFI donors to aid in promotion or marketing. Bias can be difficult to avoid in such cases. In other instances, methodological approaches are criticized (Ellerman, 2007). The many different metrics by which success can be measured complicates matters further. Consistently, throughout these studies—whether biased, criticized or otherwise—there is little consensus regarding the effectiveness of poverty alleviation through microfinance (Roy, 2011; Mosley, 1998; Van Rooey et al, 2012; Rasheda, 2016; Duvendack, 2012; Meyer, 2007)

Despite inconclusive impact assessments, microfinance has been met with extreme positivity by the global development, non-profit, and private sector communities. In 2006, Muhammad Yunus, founder of the Grameen Bank, was awarded a Nobel Peace Prize. 2005 was named "The Year of Microfinance". Global development organizations lauded this market-based, non-governmental solution to global poverty, referring to it as "The Microfinance Revolution" (Kono and Takahashi, 2010). This appellation encompassed the rapid growth of the microfinance industry, its spirit of grassroots mobilization and its acknowledgement of structural inequities. The Federal Reserve bank called microfinance "an important liberating force" and an "even more important instrument in the struggle against poverty" (Sengupta & Aubuchon, 2008). A New York Times opinion columnist proclaimed it "one of the most effective, cost-efficient weapons in the fight against poverty", a "down payment on building stronger economies and more stable societies" and an approach that is both "good Development policy and good security policy" (Hochberg, F., 2002).

Central Focus

Exploration into the measured impacts and praise of microfinance presents an anomaly within the literature. Given the inconclusive impact reports regarding microfinance's effectivity, why has it continued to be lauded with such zeal by global development, non-profit, and private sector communities? The supposed appeal of microfinance centers around the idea that it provides a solution to structural inequalities by delivering financial systems to previously excluded individuals. Microfinance is thus discussed as a *structural solution* that facilitates economic development and overturns systemic inequalities. Yet, as microfinance becomes increasingly deployed by the global development establishment and increasingly lucrative for commercial industry, microfinance appears to be complimenting— rather than challenging—the existing economic order.

The anomaly identified within the literature can be explained by exposing the ways in which, despite its reputation, microfinance actually *reinforces* existing power structures within the neoliberal economic landscape. The practice of microfinance accomplishes this through the fortification of certain neoliberal norms. These norms will be categorized into three sets of neoliberal paradigms: ideological paradigms, development paradigms, and capital paradigms.

METHODOLOGY

I have posited that microfinance has enjoyed its enthusiastic reception from the development community because of its functionality as a poverty alleviation mechanism that simultaneously upholds certain neoliberal norms. In my analysis, I will first discuss neoliberal ideological paradigms through an exploration of microfinance success tropes. I will analyze the discourse surrounding microfinance and neoliberalism, utilizing primary source examples. These texts will include excerpts from the writings of microfinance advocates and quotes from prominent proponents of neoliberalism. Textual analysis will explore the language and ideals characterizing microfinance, and how they resonate with neoliberal ideological frameworks.

To discuss neoliberal development paradigms, I will assess the significance of microfinance as a *market-based* development strategy in the context of the current neoliberal development climate. I will use a series of scholarly secondary sources to provide the historical context of neoliberal development practice. I will then use a compilation of website copy from various global development institutions as primary source materials indicating the significance of microfinance as a development mechanism.

Finally, in an examination of neoliberal capital paradigms, this paper will explore the global capital flows and profit pressures associated with commercial microfinance. I will use market surveys performed on the microfinance investment vehicle industry to gain insight into how, by whom and from where commercial microfinance receives its funding. The survey sample represents approximately 95% of all micro investment funds globally. I will utilize survey information from 2015, 2017 and 2018. These surveys were conducted by Symbiotics, Inc., an investment company based in Geneva that specializes in emerging sustainable and inclusive finance. Findings from secondary scholarly articles will demonstrate how the profit drive spurring the optimization of microfinance operations mandates compliance with neoliberal economic pressures.

IDEOLOGICAL PARADIGMS

> *"Ideology is best understood as the descriptive vocabulary of day-to-day existence, through which people make rough sense of the social reality that they live and create from day to day. It is the language of consciousness that suits the particular way in which people deal with their fellows. It is the interpretation in thought of the social relations through which they constantly create and re-create their collective being, in all the varied forms their collective being may assume: family, clan, tribe, nation, class, party, business enterprise, church, army, club and so on. As such, ideologies are not delusions but real, as real as the social relations for which they stand."*
>
> *-Barbara Fields*

"Self-Help"

While analyzing the discourse surrounding microfinancing, the concept of self-help is frequently referenced. The association between self-help and microfinance can be found directly in the titles and descriptions of several of the most popular microfinance models. Muhammad

Yunus himself describes the Grameen Bank as a private-sector-self-help bank (Yunus, 1999). The “Self-Help-Group Bank Linkage model", a financial intermediary system for group lending most popular in India but also existing in Southeast Asia and Africa includes the phrase in its very name. The term self-help group is also utilized by a variety of other microfinance institutions and microfinance methodologies to define groups of women acting as loan guarantors to one another (Brody et al, 2011). The concept of self-help is foundational within the microfinance ideal. Though self-help may not be included in the standardized terminology or titles of other microfinance models, rhetoric surrounding self-help permeates discussion of microfinance (Rhyne, 2009; Bateman, 2010; Davutoglu, 2013). Self-help also happens to be a core value within neoliberal societal norms.

Microfinance seeks to foster “self-help” among poor populations in alternative to patronizing them with charity and handouts. Self-help acknowledges the agency of poor populations and acknowledges their capabilities, which are too often discredited. By providing poor individuals with capital and thus alleviating structural inhibitions that had prevented their success, it is argued that microfinance has the power to unlock the true abilities and independence of poor individuals.

These philosophies seek to challenge common capitalist ideas surrounding culture of poverty theory. Culture of poverty is a social theory proposing that poverty is reproduced by value systems in impoverished communities. These value systems, according to this theory, underemphasize the worth of education, abiding by the law and maintaining a strong work ethic, which are habits conducive to success within capitalist establishments. Given the supposed achievability of upward mobility within capitalist regimes, the culture of poverty theory deemphasizes structural causes of poverty, instead ascribing poverty’s persistence to internal attributes of impoverished communities. In framing the microfinance logic as oppositional to this neoclassically derived culture of poverty narrative, microfinance takes on a progressive tone first by countering these mainstream, conservative norms and then by empowering the communities that have historically been discounted.

However, these progressive claims are not entirely merited. Further exploration of self-help tropes within microfinance demonstrate that in many ways, the microfinance logic actually *aligns* with neoclassical ideology. This can be illustrated through an exploration of typical self-help success stories. The excerpt below is from "Microfinance for Bankers and Investors" (2009) by Elisabeth Rhyne, the senior vice president of Accion International, a global non-profit organization invested in 63 MFIs spanning 32 countries (Accion, 2013). Ms. Rhyne is also the Managing Director of Accion's Center for Financial Inclusion.

In the opening paragraph of her book, Rhyne offers an exemplary narrative of the archetypical microfinance hero. She describes a photograph that she keeps in her office. It depicts Xavier, a man from Mozambique, proudly selling frozen fish and an assortment of groceries at an intersection on the street. "Everything about the picture, including the pride in his face as he looks at the camera, reflects his striving to become a successful businessman...Xavier was putting the pieces of prosperity together for his family on his own by building his business." She described the microfinance tools Xavier benefited from as "[a] suite of financial services designed with an eye for his needs" which could "help him create the better life he craves for himself and his family."

Rhyne's introductory paragraphs are a glorification of this humble, hard-working man who has taken his future into his own hands. With the help of an MFI loan he is able to insert himself into the market that had once excluded him and finally earn his keep within the capitalist economy. This is a narrative of home-spun success, proactivity, and the restoration of human dignity. Xavier's story is emblematic of the empowering tale microfinance seeks to tell. Xavier is proud because *he* has made these great accomplishments on his *own*, without reliance on charity or government handouts. He, *Xavier,* through his own resourcefulness and work ethic is responsible for his success.

My analysis does not seek to discredit the truth of this narrative. Xavier no doubt is precisely the hard working, ambitious, businessman that Rhyne describes him to be. The very real impact microfinance has had within Xavier's life should not be discounted in and of itself. This and similar narratives nonetheless should not be taken at face value. The ideological implications of these shining success stories deserve exploration. What, for example, is the inverse of such a narrative? Let's say that Xavier took out his microloan but the entrepreneurial endeavor he invested in failed. Since responsibility for successes are awarded to individual borrowers, failures bestow equal accountability onto the individual. This might be a just and reasonable logic to accept if such individuals lived in a vacuum devoid of all other institutional and systemic factors. Since it is safe to say that this is not the case, the allocation of such responsibility onto individuals creates a problematic dynamic in which individuals are subject to the impacts of uncontrollable factors, while being wholly liable for failures that may occur as a result. Microfinance thus becomes a means to instill the significance of self-reliance, while failing to hold policy and institutions accountable for their role in poverty perpetuation (Isserles, 2003).

For example, a common challenge faced by communities subscribing to microfinance is market saturation. Many local economies are incapable of absorbing the large influx of supply that results from the creation of many small businesses. Given the limited skill sets and resources available to the owners of individual enterprises, a “copycat” phenomenon among small business often presents due to the limited variation in product and service offerings (Guérin and Servet, 2015, 55). With so many individuals selling similar products and services, new entrepreneurs are subjected to cutthroat competitions over the limited demand (Guérin and Palier, 2005). Market logic might argue that such competition should be a stimulus to optimize, diversify and innovate. However, the limits placed upon the resource and skill capacity of these new entrepreneurs are in large part systematically imposed. Muhammad Yunus (2007) can be quoted saying:

“I believe that we can create a poverty-free world because poverty is not created by poor people. It has been created and sustained by the economic and social systems that we have designed for ourselves; the institutions and concepts that make up that system; the policies that we pursue.”

Yunus’s words allude to the complexity and multilayered nature of the foundational systems from which poverty stems. This quote also implies that microfinance has the capacity to challenge and alter those systems to work more favorably for the poor. Yet, within the basic rudiments of microfinance ideology exists the assumption that financial inclusion is the *only* structural change needed to unlock the internal capabilities of the poor. Sending the message that the poor can “take their futures into their own hands”, when there are still many other systemic inhibitors that are not accounted for by microfinance is, arguably, quite misleading. Microfinance may in fact be an effective tool, imperfect and context-dependent as most such things are. It should be marketed as such, rather than glamorized as a miracle solution with the potential to “banish poverty to a poverty museum” as Yunus once famously said (Yunus, 2007).

Neoliberal Ideals

Many of the themes and contradictions present within the self-help logic are microcosms of the societal ideals within neoliberalism. Ideas of self-help play heavily into individualism, self-actualization and free-will—qualities generally championed within neoclassical frameworks foundational to capitalist cultures. Philosophies touted by historic figures like Margaret Thatcher exemplify the essentiality of individuality and free will within neoliberal societal frameworks (Harvey, 2014). Thatcher's political convictions centered on the hard-working individual as the driver of progress. She thus condemned philosophies and policies that created an “ethos of dependency” or that were oppositional to individual freedoms. (Evan, 2004). As Thatcher famously said,

“There's no such thing as society. There are individual men and women and there are families. And no government can do anything except through people, and people must look after themselves first. It is our duty to look after ourselves and then, also, to look after our neighbors.” (The Guardian, 2013).

These economic, political and societal convictions were early foundations for the glorification of individuality, which further defined our global capitalist culture. The ideological normalcies that they came to represent are perpetuated within microfinance philosophy. Inconsistencies and contradictions stem from such ideological norms. Thomas Lemke (2001) discusses a forced congruence within the neoliberal thought collective between responsible, moral individuals and rational-economic actors. Rhyne implies that Xavier's moral fortitude and work ethic corresponds directly with his ability to rationally act within the economic environment and vice-versa. Neoliberalism as a collective project seeks to empower hard working, cost-benefit driven decision makers. These liberal philosophies rely on the assumption that any given individual is a rational economic actor and should thus be expected to make their rational decisions freely. Consequently, responsibility of institutional entities is neutralized because individuals are presumed to be fully equipped to exercise free will. The accountability for these self-determined actions and their consequences are borne by the subject, and the subject alone.

Yet access to both the perfect information necessary for the making of such rational decisions, and resources with which to carry out expressions of free will are often systemically denied. Thus, a contradiction arises by which individuals are held personally accountable for outcomes, while operating under circumstances that are structurally imposed. This is an existing neoliberal double standard that is mirrored within the microfinance logic. By upholding societal ideals like individualism and free will, microfinance philosophy perpetuates the ideological framework by which economic power structures go unchallenged.

DEVELOPMENT PARADIGMS

Long-term poverty solutions hinge upon the economic development of financially struggling countries. Such development efforts have been led primarily by partnerships between government administrations and IGOs producing policies that are predominantly guided by neoliberalism. However, the neoliberal system of development promoted and implemented by the mainstream global community has received a hefty amount of criticism over the past several decades. Power distribution within International Governmental Organizations has received particular scrutiny. Organizations like the World Bank, United Nations (UN), and International

Monetary Fund (IMF) are representative of nearly 200 nations and yet tend to be dominated by a handful of economically powerful countries (Oxford, 2014). Policies and interventions carried out by these institutions are thus considered to be skewed towards the agendas of global north dominant actors, detracting from poverty alleviation impacts in the developing world.

The structural adjustment programs (SAPS) of the late 20th century, notoriously imposed by the IMF and World Bank as conditions for loans to financially struggling countries have come to be regarded as disastrous for the poor (Abouharb and Cingranelli, 2007). These programs typically encompass all of the neoliberal staples: government austerity, low interest rates, market privatization, and lowered trade barriers. Many of the structural terms imposed by IFIs in the late 20th and early 21st century proved to exacerbate—rather than improve—the underdevelopment and poverty existing in the global south. The World Bank and IMF have themselves recognized the ineffectiveness of these cookie-cutter neoliberal methodologies (Shah, 2013) and there have been widespread attempts at reform within the IFI community (Oxford, 2014).

Microfinance, or more broadly, financial inclusion has become a core component of these reformist IFI development strategies. A brief scan of the websites and annual reports from the World Bank, United States Agency for International Development (USAID), International Financial Corporation (IFC), and UN make that quite clear. This year's World Bank annual report includes updates on the Universal Financial Access Initiative, which through collective efforts has brought a massive 1.2 billion new accounts to previously financially excluded individuals in the last 3 years (World Bank, 2018). USAID's Microfinance Development Credit Authority mobilizes private investment to aid in the financial sustenance of MFIs (USAID, 2015). The USAID Microfinance Inclusion and Innovation Project is a 1.4 million regionally funded three-year project with an aim to improve access to financial products (USAID, 2017).

The United Nations Capital Development Fund mission is to "provide capital and technical support through Inclusive Finance programs to ensure that more households and small businesses gain access to financial services that expand opportunities and reduce vulnerabilities". These objectives are typically accomplished through partnerships with microfinance institutions (UNCDF, 2016). A recent study performed by The Consultative Group to Assist the Poor (CGAP), a microfinance collective started by the World Bank, found that financial inclusion is essential to the facilitation of the first five UN Sustainable Development Goals (Scola et al, 2016;UNCDF, 2017). Financial inclusion is recognized to be not only a goal in and of itself, but a catalyst for the attainment of further development objectives. The World Bank's International Financial Corporation (IFC), one of the largest direct lenders to MFIs, pioneered the industry's commercialization in the 1990s. In 2014, the IFC lent $519 million to 47 microfinance projects. The IFC's website champions the reciprocity between sustainable microfinance business practices and economic development within impoverished communities (IFC, 2018). Suffice to say, mainstream global development institutions are large proponents of, and major contributors to the microfinance industry.

It is easy to understand the global development community's motivation for the promotion of microfinance, given its progressive reputation. The way that microfinance has been marketed complements the global development community's adoption of a more politically correct image. First, microfinance as a development tool has the potential to side step common leftist criticism that IGO development methods are typically *western devised* economic mechanisms that favor economically elite agendas. After all, microfinance came out of the *developing world*, having been popularized by Muhammad Yunus, a *Bangladeshi* economist.

Microfinance is also perceived to be a grassroots initiative, signally a further rejection of economically exclusive behavior. Microfinance seeks to empower the populace rather than existing governing power structures. Change is not made in the privileged backrooms of government buildings. Instead, change is made on the ground through interplay with the people. Where structural adjustment programs sought to create a structural overhaul from the top down, microfinance works from the bottom up. This gives microfinance the guise of an anti-elitist innovation, rooted in hands-on interaction and direct empowerment of economically disenfranchised individuals.

Yet the idea that microfinance represents a departure from neoliberal practices favoring the economic elite is not an entirely accurate narrative. I have discussed in a more abstract manner how microfinance fits into the capitalist ideological norms of individuality and free will. In a more material sense, microfinance perpetuates development norms by providing a non-state, market solution that avoids facilitating widespread collective action. The popularization of microfinance has provided the development community with a poverty alleviation tool that sidesteps government welfare programs. Instead, by providing small doses of capital for the poor, microfinance calls upon the market to redistribute itself. Mirroring the classical economic logic from which neoliberalism was derived, microfinance provides a supply side-solution. The *availability* of financial institutions is centered as essential for solving financial exclusion, assuming once institutions are available, there will be nothing hindering poor individuals from taking advantage of this economic opportunity. Yet, the crux of financial exclusion lies largely within problems arising on the demand side. For example, microfinance models, especially for-profit institutions, sometimes do not address issues such as innumeracy or financial illiteracy that prevent poor individuals from utilizing financial institutions effectively even when they have been supplied. As a development tool, the supply-side logic of microfinance obviates addressing demand side issues that would likely require non-market solutions. In this way, microfinance is yet another development tool that de-emphasizes government intervention and restricts development efforts to the market.

The capital distribution that results from microfinance minimizes the economic disruption that would result from a true empowerment of the impoverished class. Rather than facilitating horizontal and vertical business integration, microfinance targets individual actors who are subsequently pitted against one another in competition to maintain their isolated, often non-scalable micro-enterprises (Bateman and Chang, 2014). Large-scale, collective entrepreneurial projects and collaborative business networks are crucial for technological advancement and sustainable economic development as a whole. Failing to facilitate the development of these larger projects and networks inhibits the possibility for structural evolution and collective mobilization within impoverished regions. Micro-enterprises may make loan repayment possible. They may even help get food on the table in the short term. However, given the continued absence of sustainable, scalable income opportunities, it is unlikely that small infusions of capital will yield widespread economic development. As such, the global wealth distribution status quo is upheld.

CAPTIAL PARADIGMS

The Commercialization Trend

An exploration of development paradigms indicated that microfinance fails to challenge wealth distribution within the existing economic landscape. This next section will indicate that microfinance actually provides ample economic opportunity to *expand* the wealth and control of powerful players within the neoliberal order. This is exemplified within the trend of rapid commercialization within the microfinance sector. As this process has progressed, the microfinance industry has exhibited patterns increasingly similar to mainstream financial systems. The commercialization trend has consequently intertwined the microfinance sector more closely with existing economic systems. This analysis will focus on the incongruences between the commercialization trend and the prevailing narrative that microfinance operates *outside* the mainstream economic system in order to address the exclusionary gaps generated by commercial markets.

To understand the commercialization trend, first let us consider its primary objectives. The Institutionalist arguments for MFI formalization are manifold. First, it is reasoned that a profit incentive mandates the creation of more efficient management and operation structures. Formalized MFIs are also held to greater transparency and must meet the banking regulations of local authorities. Both of these components make microfinance a more attractive investment opportunity for foreign commercial capital. (D’Espallier, 2017). Appealing to commercial market financing provides a steady influx of consistent capital, which allows the institution to be self-sustaining (D’Espallier, 2017). This is significant when looking to achieve sustainable development, as the institution will persist even in the event that donors and subsidies run dry. In CGAP’s document entitled “10 Principles of Microfinance”, two out of the ten principles instruct for the creation of “permanent or sustainable” institutions (CGAP, 2004). It is argued that such imperatives are necessary to achieve the scale and penetration needed to access the poor.

Microfinance Investment Vehicles

The formalization of the microfinance sector has occurred in large part to make MFIs appealing investment opportunities for capital markets. Investments can be put towards microfinance via microfinance investment vehicles (MIVs). An MIV is a generalized term for any debt or equity fund specializing in microfinance investment (Rhyne, 2009). An analysis of the MIV market gives insight into the capital flows associated with microfinance. Symbiotic's annual MIV Market Surveys have documented the rapid proliferation of MIVs. At the beginning of 2007, the MIV market was worth $5.4 billion (Rhyne, 2009). By 2017, it had grown to $13.5 billion (Symbiotics. 2017). Though the MIV asset growth rate has declined in recent years from its great height of around 25%, MIVs have maintained a healthy rate of expansion (Appendix C). During the initial phases of commercialized microfinance, IFIs were primary providers of capital to the microfinance industry. The Inter-American Investment Corporation and the Dutch development bank FMO offered the original MIV instruments, most of which were funded by retail investors and high net worth individuals. As the double bottom line returns and relatively low volatility of MIV funds became increasingly known, corporate commercial players began investing in microfinance (Symbiotics, 2017). These new investors included pension funds, insurance companies, banks, and private equity firms. It is relevant for the purposes of this paper to note where these microfinance investors and investees are domiciled. As seen in Appendices D and E, the regions that microfinance investment flows *from* and the regions microfinance investments flows *to* align with the dependency paradigm illustrated within the literature review. Approximately 96% of the capital going into microfinance investment instruments derives from Western Europe or the United States (Appendix D), while nearly 100% of the microfinance funds are allocated within historically less-developed regions: Pacific Islands, Africa, Asia, Eastern Europe and Latin America (Appendix E). These investments have become essential to the sustenance of MFIs throughout the global south. Although the rationale for commercialization was to prevent MFI dependency on philanthropy or government subsidy, the reality suggests that MFIs continue to be dependent but have simply shifted their reliance to commercial financing. MFI investments generate good returns with debt portfolios generating 7.6% average annual returns (Appendix F) and equity portfolios generating even higher (Symbiotics, 2018). Consistent with capital sources, 96% of these returns are collected by commercial entities operating within the U.S. and Western Europe.

Profit Pressures

As indicated by the findings above, microfinance investment vehicles have become mainstream financial commodities traded within primary and secondary financial markets. Intuitively, as microfinance commercializes, it has demonstrated more trends in line with that of the traditional financial sector. To begin, there is a well-documented tradeoff between profit maximization and outreach to poorer populations. (Hartarska, 2011; Armendariz de Aghion and Szafarz, 2011). A cross-sectional study spanning 1,129 MFIs across 98 countries found the inverted U shape correlation displayed in Appendix G between outreach to poor populations and profitability.

Much like the traditional financial sector, profit incentives have driven MFIs toward areas that are relatively more populated and capital dense. Although loan portfolios have increased overall, the populations accessed within these loan portfolios are less rural and comparatively wealthier. In many countries microfinance market shares are dominated by a small number of giant firms. For example, 75% of the Indian microfinance loan portfolio is generated by 10 out of 3,000 microfinance institutions (Reuters, 2010). When put together, these two trends are further evidence that large MFIs servicing the greatest number of people are often geographically isolated from rural areas where there are higher levels of extreme poverty (IFAD, 2011). As such, the microfinance industry runs the risk of making the same exclusionary gaps that it was created to fill. In instances where the extremely poor *are* accessed, MFIs must proportionally expand outreach among less poor populations to offset the low margins associate with lending to poorer populations (Baumann et al, 2015). In early microfinance models like Grameen, loans were required to be invested in small business creation. Now however, formalized MFIs are increasingly lending capital to cover borrowers' consumer needs (Collins et al, 2009; Madajewicz, 2003) (Appendix H). Because loans are not being put towards income-generating investments by borrowers, the result is an increased reliance on microloans to meet general liquidity needs. While this phenomenon works in the favor of credit lenders by increasing loan transactions, it can result in client over-indebtedness, sometimes to multiple institutions (Schicks, 2013). Profit maximization also encourages for-profit MFIs to maximize interest accumulation through high-principal loans. Traditional microcredit loans are small and short term with frequent payment installments, a model that is distinguished from typical commercial one-time-payment loans (Srinivasan, 2007). However, due to the increased competition, MFIs have grown less conservative in their administration of credit applications (Wagner and Wrinkler, 2013), as higher-principal loans yield greater profits. The common practice of joint liability (group lending) is often replaced by individual loans (Appendix I). Maria Lehner's (2009) theoretical study demonstrated that firms are more likely to give individual loans when operating under higher competition and when refinancing opportunities are more accessible. Given the widening of capital markets available to provide refinancing and the proliferation of competing MFI firms, both trends would indicate that individual loans are likely to continue gaining in popularity. The issuance of higher-principal loans and individual loans by microfinance institutions are further emulations of the mainstream financial industry. Finally, social mentorship programs that accompanied microfinancial services in their nascency are often considered cost-ineffective and abandoned by for-profit MFIs (D'Espelliar, 2017; Hudon and Sanberg 2013: 577).

These phenomena are not ubiquitously experienced by every commercial MFI. There is a wide array of microfinance institutional logics with different ratios of commercial vs. social welfare prioritization. However, the common thread within these findings suggests that rationally acting, for-profit institutions give in to certain systemic pressures that induce profitability. In doing so, microfinance institutions are conforming to the profit-maximizing behaviors characterizing the mainstream economic world. Considering that microfinance was created to fill access gaps left by mainstream market forces, we should begin questioning why the microfinance industry is becoming more responsive to the same systemic pressures that created these gaps initially. Despite this reality, microfinance continues to enjoy a reputation as a primarily mission-driven industry operating in opposition to inequitable market forces.

DISCUSSION

Microfinance first became popularized as a solution to poverty arising from the structurally-imposed problem of financial exclusion. By tailoring financial products to the needs of uncollateralized populations and providing necessary mentorship in financial literacy, microfinance practices sought to revolutionize the position of the poor within the global economic system. Despite inconclusive impact assessments, these practices have been popularized by development, non-profit and commercial organizations, who have lauded microfinance as a grassroots approach to poverty remediation. Yet the reality of microfinance has done little to disrupt existing economic power frameworks.

The ideology behind microfinance sought to break away from capitalist "culture of poverty" tropes characterizing the poor as lazy and incapable. By empowering the poor with economic agency, microfinance was acclaimed as a revolutionary force with the capability to reshape the economic order. A deeper analysis of the logic behind microfinance demonstrates that many of its success narratives and self-help tropes actually reaffirm existing neoliberal ideals of independence and rational economic action. Such ideals present a subtext that absolves institutions and governments of responsibility for persistent poverty.

Given its Bangladeshi derivation and grassroots approach, microfinance has seemingly signaled a departure from elitist practice. In reality however, microfinance has proven to be the newest incarnation of the same non-state, market-based, neoliberal policies that dominated the SAP era. The dependency of for-profit MFIs on commercial capital has resulted in similar global north/south dependency paradigms that have long defined the colonial and neocolonial economic landscape. Microfinance is alleged to challenge the existing economic order by sweeping previously excluded poor populations into the market. Rather than restructuring economic power, however, this has resulted in the expansion of established economic power into previously inaccessible corners of the market. Yet despite the microfinance industry's increasing subjection to capitalist pressures, it continues to claim a commitment to addressing systemic inequalities that are direct products of the economic order into which it has integrated.

Limitation and Future Direction

This paper seeks to establish what microfinance is not. It is not, as it is commonly claimed, a poverty solution that will result in a global *systemic* overhaul of wealth distribution. Microfinance does not necessarily challenge existing power structures. However, capitalism's global hegemony does not appear to be changing in the near future. Therefore, reforms that can operate within this neoliberal world continue to be relevant. As such, research should explore how to deepen the long-term impacts of microfinance on the lives of the poor. This exploration should be conducted with a *realistic* understanding and discourse of microfinance's merits and limitations.

In this paper, credit has been the main financial product discussed. While credit has always been the most popular financial product within microfinance, other products, such as savings and insurance, are becoming increasingly popular within microfinance. Savings and transaction accounts specifically are credited with being *more* productive instruments for extremely poor individuals (Hugh, 2007). These types of financial products could encourage very different ideological narratives than those of microcredit. Mobile banking and digital currencies are also vital tools for improved access to isolated populations. An exploration into the significance of these other microfinance mechanisms in the context of neoliberal ideology, development strategy, and capital distribution would enrich the microfinance literature.

This paper also focuses primarily on trends in "new wave" commercial microfinance. Though commercial microfinance is an increasingly common practice, there are still many small-scale microfinance initiatives—some of which are even for-profit—that continue to emphasize social mentorship and collective community growth. Certain voices within the global development community have also recognized the shortcomings of microfinance as a development tool, acknowledged the potential for predatory lending incentivizing, and are seeking methods to avoid or counter problematic trends. (World Bank, 2015; Rosenberg et al., 2009)

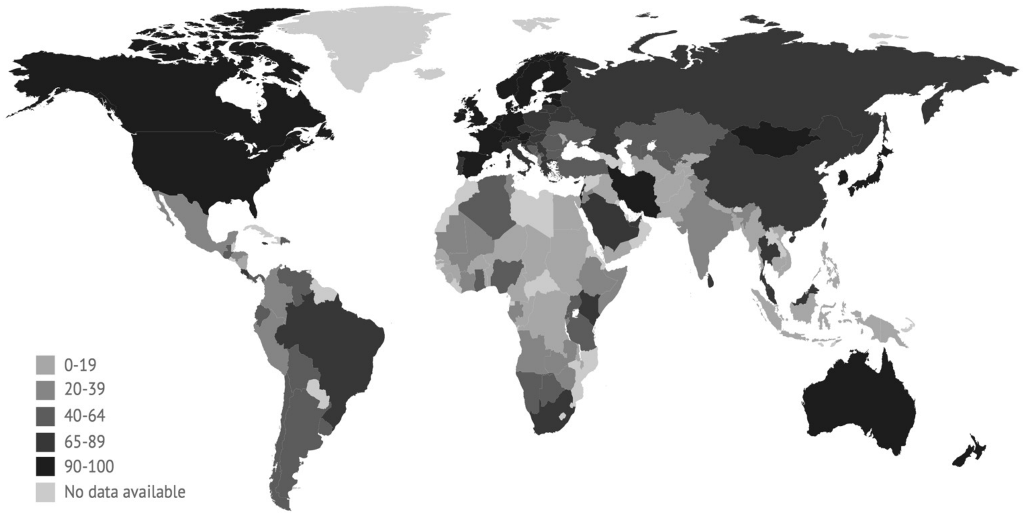
CONCLUSION

While in many cases, microfinance may improve individual lives in the short-term by offering superficial financial solutions, advertising microfinance as a structural achievement is hubristic and harmful. Allocating undue credit to microfinance provides a false sense of accomplishment, appearing to obviate the need for more critical and radical challenges to the economic order. Though the intent of microfinance is to reorganize wealth redistribution at a fundamental level, the pervasive drive of market capitalism, which suffuses the very fabric of our global order, has a habit of slyly inserting itself and thwarting attempts at its disruption. This is a humbling fact that, amid the making of lofty economic schemes, is too often ignored. As such, it is the responsibility of the broader global community to remain aware of the motivations behind mainstream discourse and policy initiatives. Microfinance maintains a significant role within development strategy and continues to impact the lives of the world's most vulnerable populations. Considering how palatable microfinance is to existing economic power structures, promoters should, at a minimum, critically evaluate the basis for their microfinance enthusiasm.

APPENDIX

APPENDIX A

Account Penetration Around the World



(World Bank, 2018)

APPENDIX B

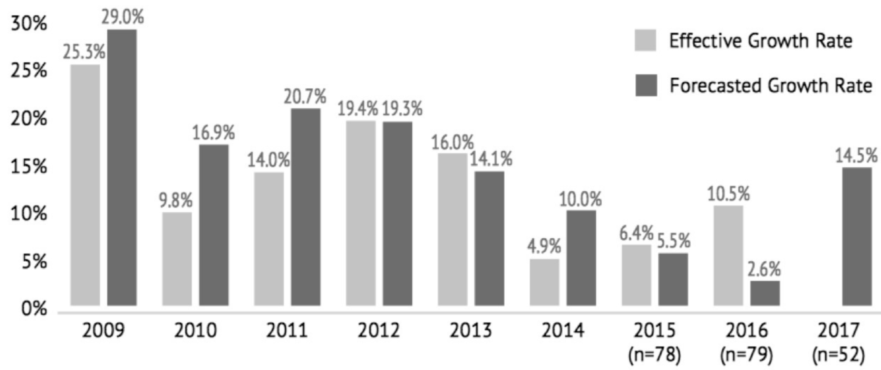
Key Characteristics of Microfinance

1. small transactions and minimum balances (whether loans, savings, or insurance),
2. loans for entrepreneurial activity,
3. collateral-free loans,
4. group lending,
5. target poor clients,
6. target female clients,
7. simple application processes,
8. provision of services in underserved communities,
9. market-level interest rates.

(World Bank, 2007)

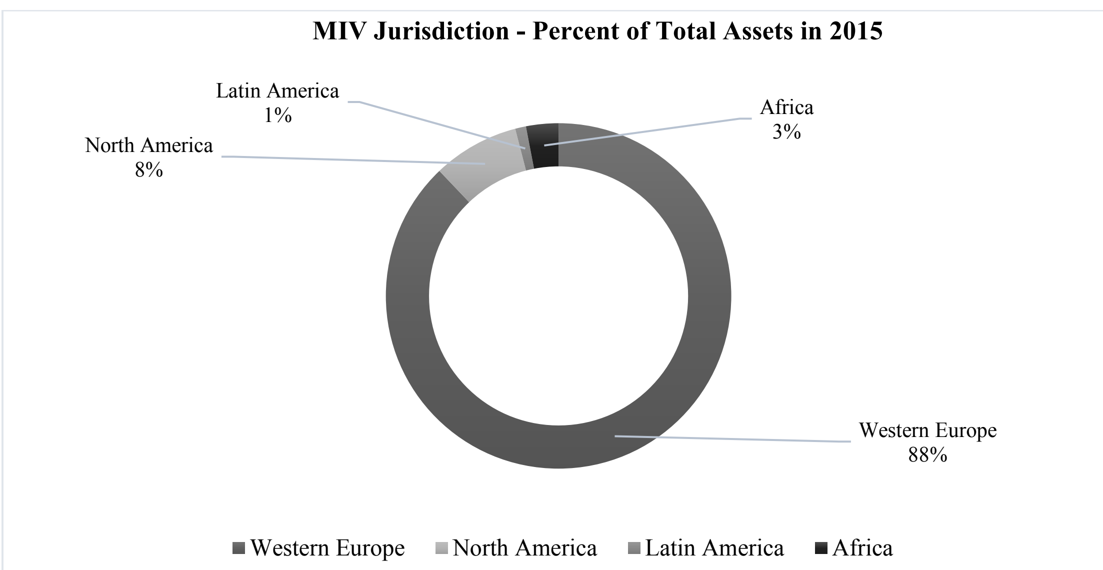
APPENDIX C

MIV Total Asset Growth



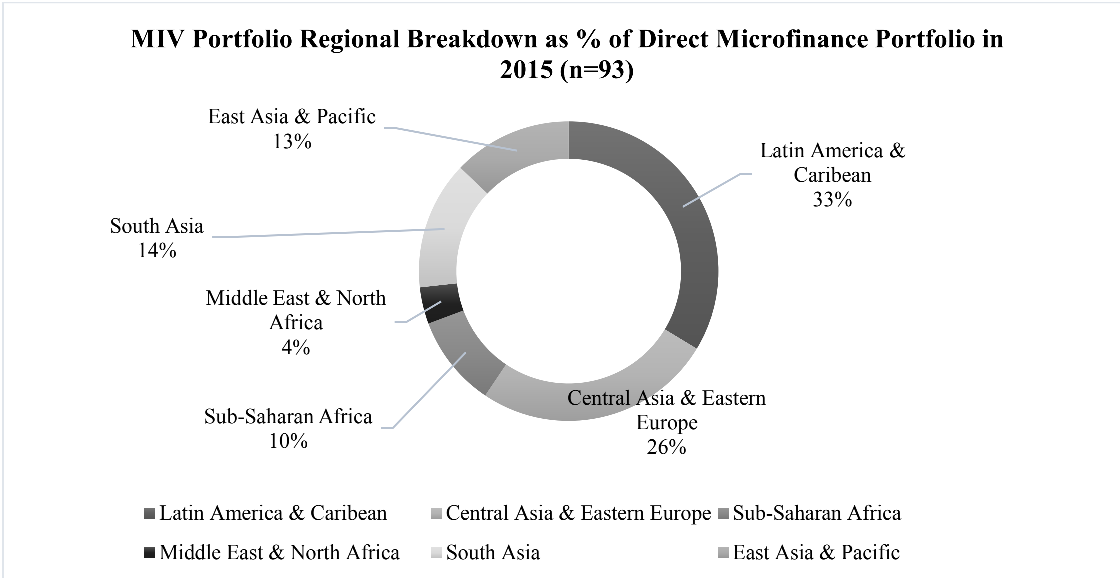
(Symbiotics, 2015)

APPENDIX D



(Symbiotics, 2017)

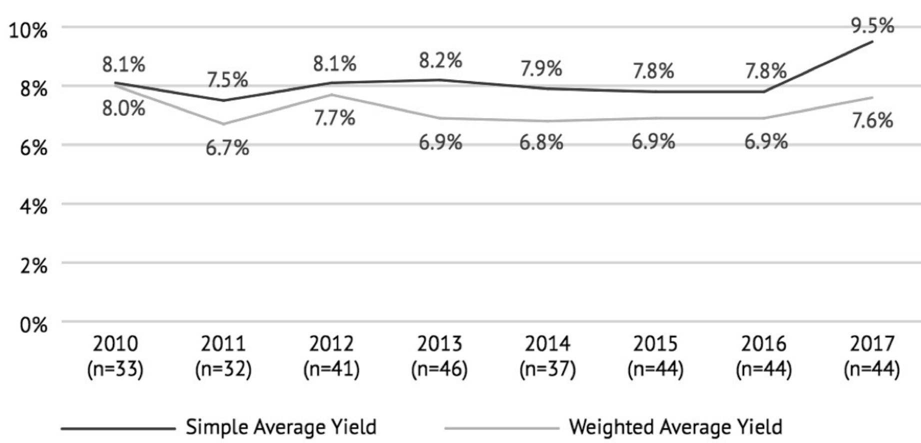
APPENDIX E



(Symbiotics, 2017)

APPENDIX F

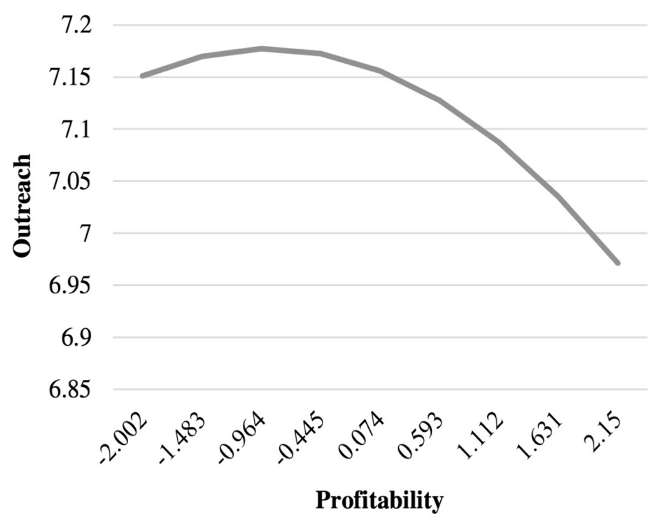
Historical and Weighted Average Yield of on Direct Microfinance Debt Portfolio



(Symbiosis, 2018)

APPENDIX G

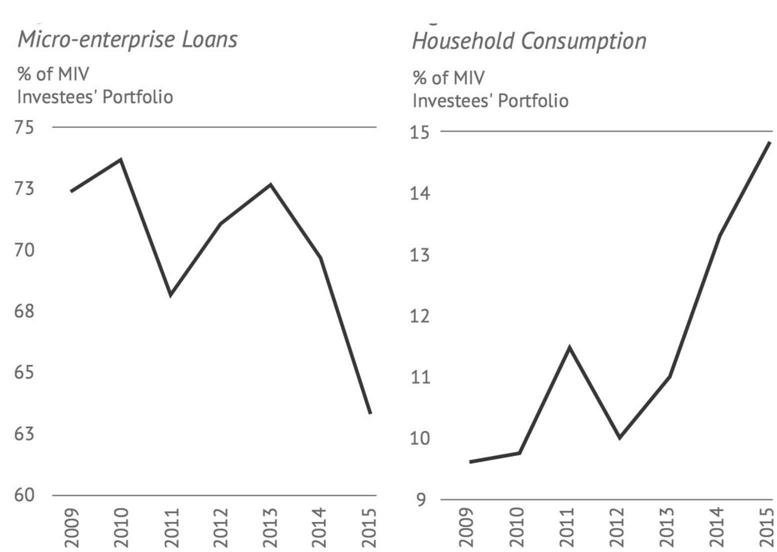
Inverted U-Shape Relationship Between Microfinance Outreach and Profitability



(Im & Sun, 2015)

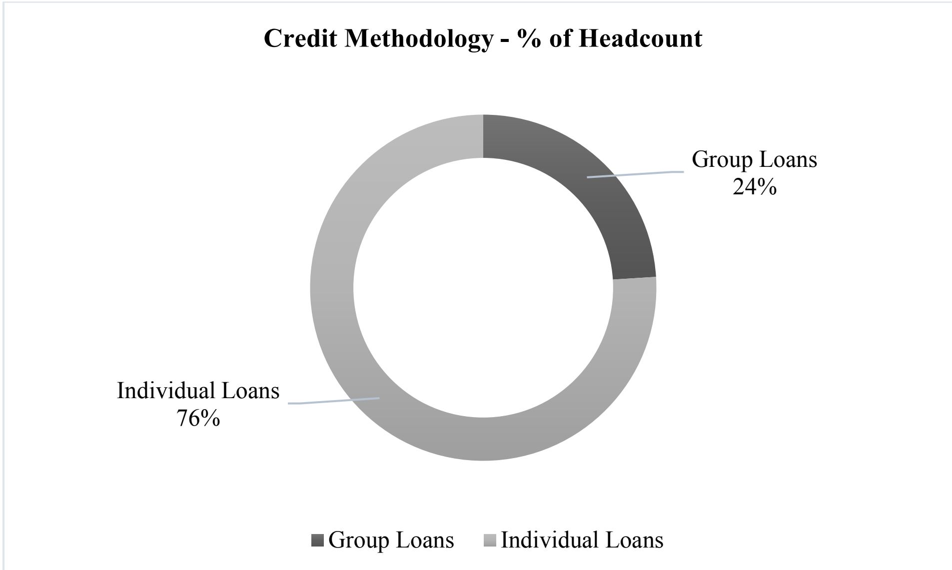
APPENDIX H

Loans used for Micro-enterprise vs. Household Consumption



(Symbiotics, 2015)

APPENDIX I



(Symbiosis, 2017).

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